

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6897

BILL NUMBER: HB 1179

NOTE PREPARED: Jan 19, 2004

BILL AMENDED:

SUBJECT: Cultural and performing arts development districts.

FIRST AUTHOR: Rep. Avery

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill authorizes cities and counties that have a Redevelopment Commission to apply to the Department of Commerce and the Arts Commission for designation of a Cultural and Performing Arts Development District. The bill also establishes procedures for the allocation of incremental property tax, sales tax, and income tax revenue to the Redevelopment Commission for use within the district.

Effective Date: July 1, 2004.

Explanation of State Expenditures: *Department of Commerce:* The bill requires the Indiana Department of Commerce (IDOC) to review applications for, and designate, cultural and performing arts development districts proposed by local redevelopment commissions. (The bill prohibits the IDOC from designating a cultural and performing arts development district unless the Indiana Arts Commission and the State Budget Agency recommend approval of the application.) The bill requires the IDOC to adopt rules establishing criteria for the designation of cultural and performing arts development districts and specifies various criteria that must be included in those rules. The bill provides that the local unit's legislative body and redevelopment commission may enter into an agreement with the IDOC establishing the terms and conditions governing the cultural and performing arts development district. It also provides that the IDOC oversee conveyance of public facilities owned or developed by the local unit and its redevelopment commission at below market rates. The IDOC should be able to meet these demands given its current budget and resources. The December 3, 2003, state staffing table indicates that the IDOC has 32 vacant full-time positions, including regional office positions.

Department of State Revenue: The bill requires the Department of State Revenue (DOR) to determine the base gross retail and income tax base period amounts for a cultural and performing arts development district within 60 days of the district's designation by the IDOC. The base gross retail period amount is the aggregate amount of state gross retail and use taxes remitted by businesses operating in the territory comprising the district during the state fiscal year preceding the designation of the district. The income tax base period

amount is the amount of income taxes (state individual Adjusted Gross Income Tax, and local option income taxes (CAGIT, COIT, and CEDIT)) paid by employees employed in the territory comprising the district for work in the district during the state fiscal year preceding the designation of the district. Every October, the DOR is required to calculate the incremental income and sales tax revenues collected in each cultural and performing arts development district during the preceding state fiscal year.

Additional Application Recommendations: The bill requires the Indiana Arts Commission, the State Budget Agency, and the State Budget Committee to review applications for cultural and performing arts development district designations and make a recommendation to the IDOC. In addition, the bill prohibits allocations of incremental income and sales tax collections to be made unless the State Budget Agency approves the application for district designation.

State Treasurer: The bill requires the State Treasurer to establish an incremental tax financing fund for each cultural and performing arts development district. Each year incremental income and sales tax revenue generated in a cultural and performing arts development district must be deposited in its respective incremental tax financing fund. Each month, money in a cultural and performing arts development district's incremental tax financing fund is distributed to the redevelopment commission operating the district for deposit in its cultural and performing arts development district fund. The bill limits allocations of income tax (including CAGIT, COIT, and CEDIT) and sales tax collections to a cultural and performing arts development district's incremental tax financing fund to \$5.0 M over the life of the district.

Explanation of State Revenues: The bill allows a local redevelopment commission operating a cultural and performing arts development district to capture incremental revenue from: (1) the individual AGI tax paid by employees working in the district; and (2) sales and use taxes remitted by business operating in the district. These allocations plus allocations of incremental local option income taxes (CAGIT, COIT, and CEDIT) may not exceed \$5.0 M over the life of the particular cultural and performing arts development district. Incremental state income taxes and sales and use taxes could not be captured unless approved by the State Budget Agency. The bill does not limit the number of districts which can be created statewide. These allocations would reduce revenue to the General Fund and the Property Tax Replacement Fund by an indeterminable amount potentially beginning in FY 2005.

Explanation of Local Expenditures: After entering into the cultural and performing arts development district agreement with the IDOC, a redevelopment commission must submit to the DOR certified copies of the IDOC designation of the district, the agreement, a complete list of the residents and employers in the district, and street and address information in the district. The DOR is then required to calculate the base amounts for income taxes and for sales and use taxes generated in the cultural and performing arts development district.

If a redevelopment commission designates a cultural and performing arts development district as a TIF area, it must publish notice of this action and of the public hearing on the subject, and accept written remonstrances on this action. The bill also requires the redevelopment commission to file information regarding the cultural and performing arts development district with each taxing unit that levies property taxes in the district. If, after holding a public hearing, the redevelopment commission designates the TIF area, a person who submitted a written remonstrance may appeal the commission's decision to the circuit or superior court of the county.

Explanation of Local Revenues: The bill allows a local redevelopment commission to establish a cultural and performing arts development district encompassing all or part of the territory under the commission's

jurisdiction. The cultural and performing arts development district must be designated by the IDOC, upon affirmative recommendation of the Indiana Arts Commission and the State Budget Agency. The bill allows a redevelopment commission operating a cultural and performing arts development district to designate the district as a TIF district. This would allow the redevelopment commission to capture incremental property tax revenue generated from taxable property in the cultural and performing arts development district (revenue from assessed property valuation in excess of the base assessed value calculated before the designation of the district). The bill also allows a redevelopment commission operating a cultural and performing arts development district to capture incremental revenue from: (1) state individual AGI taxes and local option income taxes (CAGIT, COIT, and CEDIT) paid by employees working in the district; and (2) state sales and use taxes remitted by business operating in the district. Income and sales and use tax allocations may not exceed \$5.0 M over the life of the particular cultural and performing arts development district. In addition, income tax and sales and use tax allocations require approval by the State Budget Agency. The bill does not specify a capture limit for incremental property tax revenue. However, if a redevelopment commission determines that incremental property tax revenue in a year will exceed the amount necessary to pay the costs of the cultural and performing arts development district, the excess incremental tax revenue may be allocated to local units. Also, the bill permits a redevelopment commission to pay a property tax replacement credit against the property tax of the “tiffed” property. This credit would reduce the amount of TIF proceeds received by the commission.

The bill requires a redevelopment commission to establish a cultural and performing arts development district fund to receive incremental property, income, and sales tax revenues. Under the bill, money in a cultural and performing arts development district fund may be used for: (1) the development and operation of public facilities that are related to the cultural and performing arts and that are in or serving the district; (2) costs incurred relating to debt instruments issued to finance the development of public facilities serving the district; and (3) payment of expenses incurred for public facilities in or serving the district. The bill prohibits any money in a cultural and performing arts development district fund from being used to pay operating expenses of a redevelopment commission. The bill also authorizes a redevelopment commission to issue bonds with a maturity not exceeding 50 years for the purpose of providing public facilities for a cultural and performing arts development district, or the cost of refunding or refinancing outstanding bonds.

State Agencies Affected: Indiana Department of Commerce; Department of State Revenue; Treasurer of State; State Budget Agency; State Budget Committee; Indiana Arts Commission; State Board of Accounts; Department of Local Government Finance.

Local Agencies Affected: Local redevelopment commissions.

Information Sources:

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